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Russian Federation

Poultry and Products Semi-annual

2013 Semi-Annual Report

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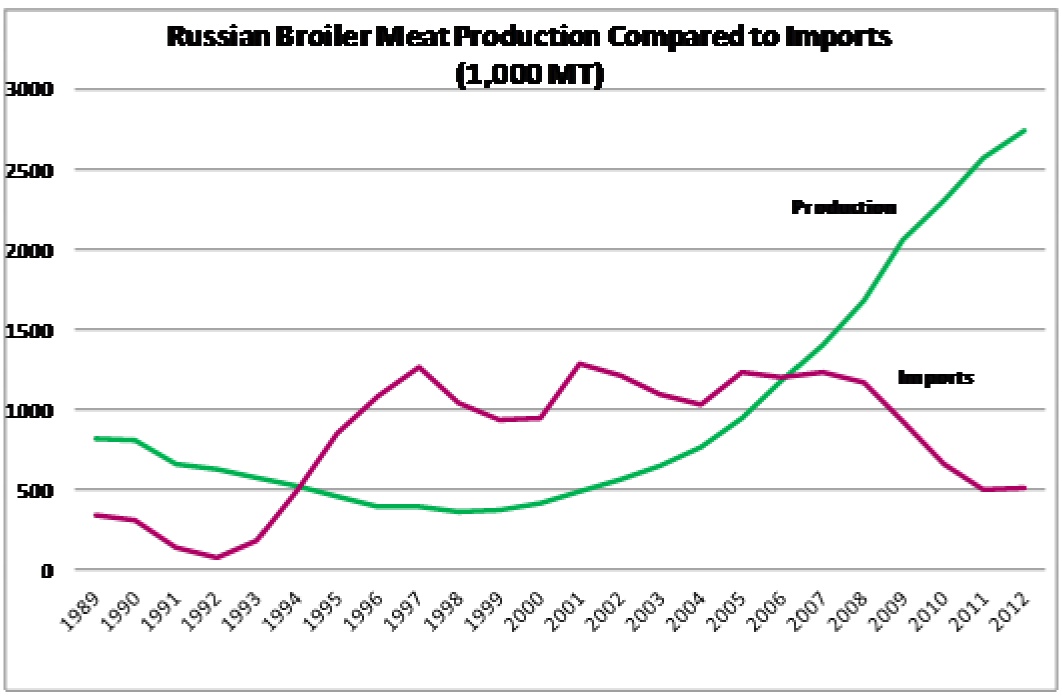
Report Highlights:
The Russian broiler production forecast for 2013 is 4.2% higher than in 2012 (a 120,000 MT increase) to 2.95 MMT total. This expected growth, however, is slower than recent annual increases in large part because of anticipated difficulties in acquiring affordable feed grains this year. Soaring prices for feed grains are expected to have a direct impact on the Russian industry's production costs, not only slowing the pace of growth, but also hurting profitability. Imports are expected to remain strong in 2013, with Belarusian poultry accounting for a growing percentage of imported product.

Data included in this report is not official USDA data. Official USDA data is available at http://www.fas.usda.gov/psdonlineonline.

Executive Summary:
FAS/Moscow's broiler production forecast for 2013 is 2.95 MMT, or 4.2% higher than in 2012 (a 120,000 MT increase). This forecasted growth, however, is slower than recent annual increases (i.e., approximately 250,000-300,000 MT per annum) in large part because of anticipated difficulties in acquiring affordable feed grains this year. In fact, soaring prices for feed grains (as a result of a severe draw-down in feed stocks due to a smaller crop in 2012 and strong early season exports) are expected to have a direct impact on the Russian poultry industry's production costs, not only slowing the pace of the industry's growth, but also decreasing industry profitability. This may lead to less efficient poultry facilities having to file for bankruptcy in 2013, increased production costs, lower farm gate prices, and an inability to repay heavy loans producers are facing as a result of modernization efforts.

Despite concerns related to production in 2013, according to preliminary Russian government data, Russia produced 3.55 MMT of poultry meat (in slaughter weight) in 2012. FAS/Moscow estimates broiler production to have accounted for 2.83 MMT of this figure, a 10 percent increase over 2011 production levels. Imports also remained strong, with the United States accounting for the lion's share of product, followed by Belarus, which has seen a significant increase in the volume of poultry it has exported to Russia over the last few years.

Graph 1. Historical Russian Broiler Meat Production Compared to Imports (1,000 MTs)



Source: PSD Online, Foreign Agricultural Service

Simultaneous growth of domestic broiler production and imports has boosted Russian poultry consumption, as well as intra-Customs Union trade, and stocks in the second half of 2012. As a result, FAS Moscow increased consumption by 3.6% and Russian poultry exports by 20% for 2012. FAS/Moscow's revised consumption and export forecasts for 2013 have also been increased – by 4.5%

and 27.3%, respectively.

Table 1. Russia: Broiler Production, Supply & Demand, 1,000 MT (ready-to-cook)

Poultry, Meat, Broiler Russia	**2011**		**2012**		**2013**	
	Market Year Begin: Jan 2011		**Market Year Begin: Jan 2012**		**Market Year Begin: Jan 2013**	
	USDA Official	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Production	2,575	2,575	2,750	2,830	2,850	2,950
Total Imports	504	504	515	560	520	580
Total Supply	3,079	3,079	3,265	3,390	3,370	3,530
Total Exports	35	35	50	60	55	70
Human Consumption	3,044	3,044	3,215	3,330	3,315	3,465
Total Dom. Consumption	3,044	3,044	3,215	3,330	3,315	3,465
Total Use	3,079	3,079	3,265	3,390	3,370	3,535
Ending Stocks	0	0	0	0	0	0
Total Distribution	3,079	3,079	3,265	3,390	3,370	3,535

NOTE: Not Official USDA Data

Production:

FAS/Moscow's broiler production forecast for 2013 is 2.95 MMT, or 4.2% higher than in 2012 (a 120,000 MT increase). This forecasted growth, however, is lower than recent annual increases (i.e., approximately 250,000-300,000 MT per annum) in large part because of anticipated difficulties in acquiring affordable feed grains this year.

Russian domestic feed prices nearly doubled during the second half of 2012 and continue to grow (see, e.g., GAIN Report RS1304). Soaring prices for feed grains (as a result of a severe draw-down in stocks due to a smaller crop in 2012 and strong early season exports) will have a direct impact on the poultry industry's production costs, slowing the pace of the industry's growth, and decreasing industry profitability. This may lead to less efficient poultry facilities having to file for bankruptcy in 2013 due to high feed prices, increased production costs, lower farm gate prices and heavy loans they are already carrying as a result of modernization efforts. The Russian Union of Poultry Producers (RUPP) is very concerned about feed supplies and has requested that the government release from 500 MT to 1,000 MT of feed grain per day, from State reserves, for use by large poultry producers/processors. The Russian Ministry of Agriculture has held discussions with Russian grain and livestock production associations and has recently agreed to:

- collect information on the availability of grain as of January 1, 2013;
- consider setting the import duty for wheat, meslin, rye, barley, oats, and corn at zero; and,
- analyze whether or not there is a need for additional state support for agricultural producers involved in the production of livestock products.

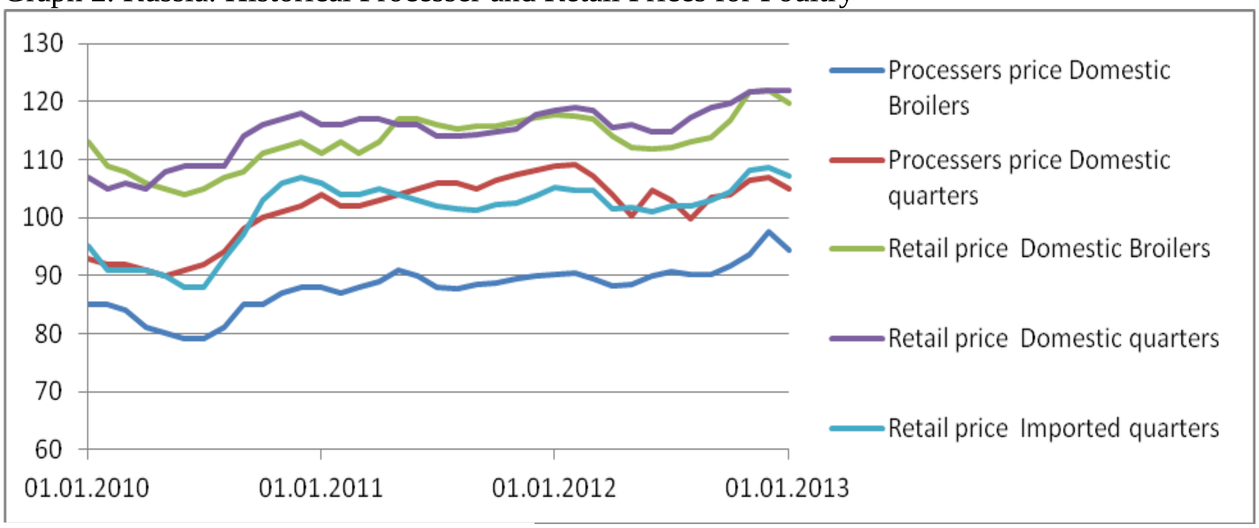
The Ministry intends to announce its policy decisions in the spring of 2013.

Production costs and profitability

Production costs in 2012 (RUR 56/kilogram {US $1.84/kg}) were higher than they were in 2011 (RUR 53/kilogram {US $1.75/kg}), while farm gate prices remained constant. Not surprisingly, the level of profitability reportedly varies significantly across Russia's poultry industry. Producer margins reportedly range from 4 % to 30% depending on the degree of investment in new production technologies and modern equipment. According to RUPP, however, the average industry-wide profitability levels in Russia decreased from 17% in 2005, to 11% in 2011, to 4% in 2012, which has had a negative impact on the investment attractiveness of the industry.

Processor and retail prices fell during the first half of 2012 and only began to climb in August when the poor Russian grain crop became evident and feed prices began their upward climb. Retail and processer prices for poultry products, excluding the processers' price for domestic quarters, have already surpassed previous high levels as of December 2012, and this trend is expected to continue in 2013.

Graph 2. Russia: Historical Processer and Retail Prices for Poultry



Source: The Russian Ministry of Agriculture

<u>Preliminary 2012 Flock Results</u>

According to the Russian government's statistics service (Rosstat), the total domestic poultry flock totaled 494.5 million head in 2012, or 4.5% higher than the previous year. Of this, agricultural establishments held 394.5 million head, 6.2% higher than the previous year. Flock inventories on private, registered farms are also increasing, albeit on a smaller scale, as a result of ongoing development of private small and medium-sized enterprises. FAS/Moscow estimates 82% of the Russian flock to be broilers raised in integrated commercial broiler operations.

Table 2. Year-End Poultry Flock Inventories (Million Head)

	2009	2010	2011	2012
All type of farms	434	449	473	494.5
Including:				
Agricultural establishments	331	348	371	394.1
Private household farms (backyard)	99	96	96.6	94.4

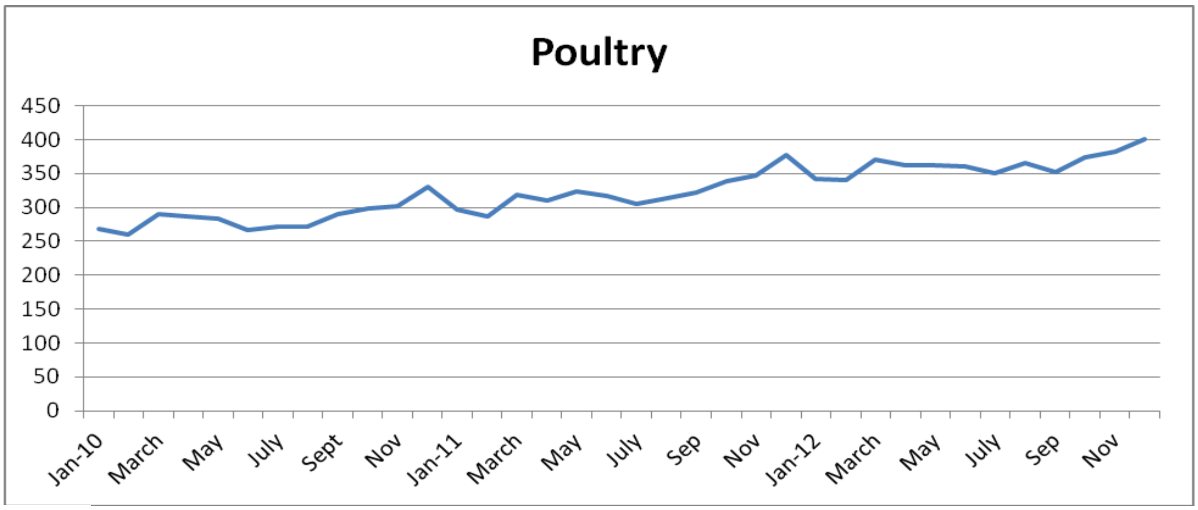
Private, registered farms	3.9	4.7	5.6	6.1

Source: Rosstat

Preliminary 2012 Production Results

Despite concerns related to production in 2013, according to preliminary Russian government data, Russia produced 3.55 MMT of poultry meat (slaughter weight) in 2012, up from 3.204 MMT in 2011. FAS/Moscow estimates broiler production to have accounted for 2.83 MMT of this figure, a 10 percent increase over 2011 production levels.

Graph 3. Avg. Russian Monthly Poultry Production at Agricultural Establishments (live weight), 1,000 MT



Source:
http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1140086922125

Production volumes were higher than previous forecasts in 2012, because some poultry producers purchased large volumes of feed grains in the summer of 2012, when prices were still relatively low. These feedstocks helped support lower production costs through December 2012, and incentivized retailers to bolster broiler meat stocks for sale in 2013. Moreover, many large Russian broiler producers (e.g., OAO Cherkizovo group, Elinar Broiler, ZAO Prioskoliye, GAP Resurs, Lisko Broiler and others) marketed a greater range of poultry products to consumers. This diversity of product offerings helped stimulate consumer demand in 2012, and this demand is expected to continue into 2013 so long as prices remain moderate.

The largest Russian poultry producing enterprises in 2012 were concentrated in the following regions: Central Federal District (FD) – 36 percent, Volga FD – 17 percent, and Southern FD – 12 percent. Approximately 70 percent of all broiler meat was produced by the 20 largest companies and organizations. In fact, six of these companies (i.e., ZAO Prioskoliye, OAO Cherkizovo group, GAP Resurs, Severnaya, OAO Belgrankorm, and OOO Prodo-Trade) produced more than 50 percent of Russia's domestic broiler meat.

Table 3. Annual Poultry Production, live and slaughter weight, 1,000 MT

	All farms			Significant agricultural establishments			Private household farms			Private farms		
	live	slaught	Sl/liv	live	slaught	Sl/liv	liv	slaught	Sl/liv	liv	slaught	Sl/liv

		er	e, %		er	e, %	e	er	e, %	e	er	e, %
200 7	2 68 9	1 925	71.2	2 26 9	1 600	70.5	39 9	309	77.4	22	17	77.2
200 8	3 04 9	2 217	72.7	2 66 2	1 910	71.8	36 7	291	79.3	21	17	80.1
200 9	3 50 5	2 555	72.9	3 09 0	2 232	72.2	39 1	304	77.7	24	19	79.2
201 0	3 90 0	2 847	73.0	3 47 2	2 516	72.5	40 3	336	83.4	26	19	73.0
201 1	4 35 3	3 204	73.6	3 90 9	2 858	73.1	40 8	319	78.2	36	27	75.0

Source: http://www.fedstat.ru/indicators/start.do

Consumption:

Russian broiler consumption remained relatively strong in 2012 as increased supply, vis-à-vis increased domestic production and imports, kept poultry retail prices growing at a slower pace than the remainder of the consumer basket (i.e., red meats). The Russian poultry industry is increasingly making use of the whole bird for a variety of products, including producing more semi-ready and ready-to-eat food products. Increased pork and beef prices have also contributed towards growing demand for poultry in the retail sector, as well for chicken sausage and hotdog production. Notably, 2012 Russian poultry meat production and imports also went towards bolstering stocks for anticipated consumption in the summer of 2013, both in Russia and in CIS countries, when burgeoning feed costs are expected to put greater financial pressure on domestic producers.

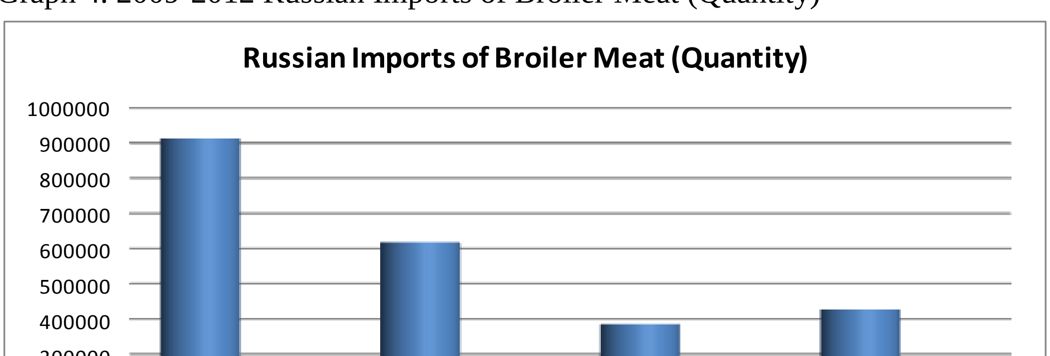
FAS/Moscow has increased its 2012 consumption estimate by 3.6%, as well as its estimate for Russian poultry exports by 20%. Forecasts for 2013 consumption and exports have also been raised – by 4.5% and 27.3%, respectively, for the same reason. However, consumption growth in the second half of 2013 is expected to be slower than it was in 2012 because of anticipated price increases.

Trade:

FAS/Moscow forecasts Russian poultry meat imports at 580,000 MT in 2013, an 11.5% increase over previous levels. This increase is a result of higher demand for poultry in the retail sector, when compared to other meats (i.e., pork and beef), due to its favorable price. The Russian Federal Customs Service (FCS) reported that Russia imported $28.3 million of poultry from non-CIS countries in January 2013, a 257% increase over what was imported in January 2012. While reflecting only one month of imports, this increase is attributable to retailers seeking more low-cost meats (i.e., poultry vs. red meat).

FAS/Moscow's 2012 poultry import estimate was also increased by 8.7%, due to an increase in imports, mostly from Belarus. In fact, Belarus and the Ukraine's share of total Russian poultry imports continue to grow, increasing from approximately 17% in 2011 to 23% in 2012.

Graph 4. 2009-2012 Russian Imports of Broiler Meat (Quantity)



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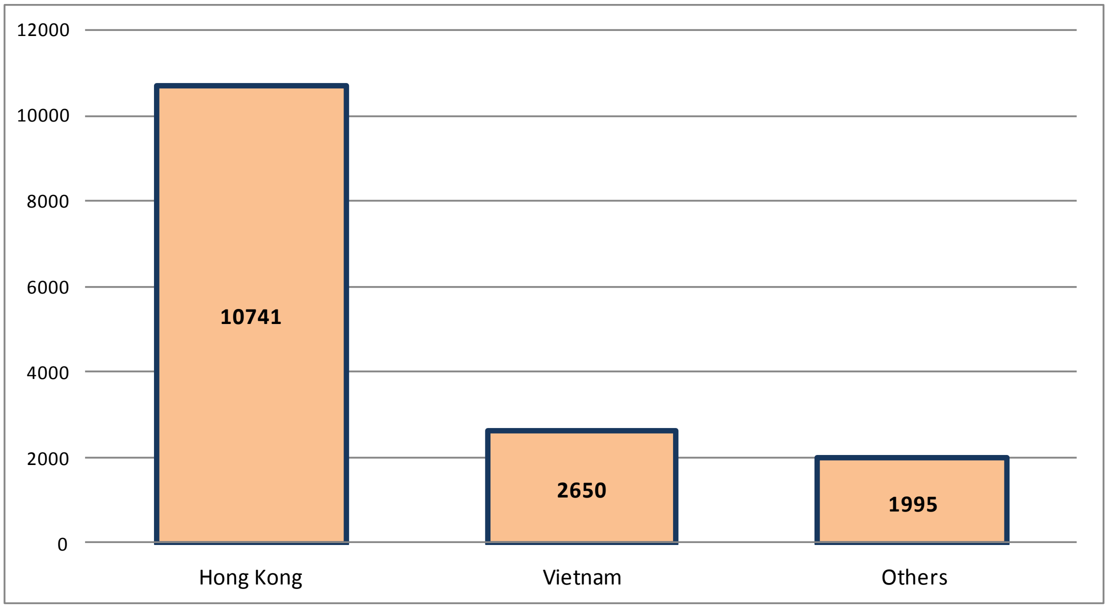
Source: Global Trade Atlas

According to Global Trade Atlas data, the United States supplied 47% of Russia's imports of broiler meat in 2012 (Belarus supplied 18%, Brazil supplied 11%, France supplied 6%, Ukraine supplied 5 percent, and several other producers supplied the remainder). More than 90 % of Russia's imported poultry were frozen chicken cuts and offal, 2.9% prepared or preserved chicken meat or offal, and 2.3% frozen whole chickens.

FAS/Moscow forecasts Russian broiler exports to Kazakhstan, a Customs Union member, to grow to 70,000 MT in 2013. According to the FCS, Russian poultry exports to Kazakhstan in the first 11 months of 2012 were valued at $44 million (i.e., 22,400 MT), up from $37 million during the same period in the previous year. However, FCS also notes that trade data are underreported.

Excluding broiler exports to Kazakhstan, Russia's poultry exports were predominantly comprised of chicken paws to Asian markets.

Graph 5. 2012 Russian Poultry Exports to non-CIS countries (MTs)



Source: Global Trade Atlas

The State Program for Development of Agriculture for 2013-2020 sets a goal to increase poultry meat exports to 400,000 MT by 2020, from approximately 40,000 MT in 2012. The target regions for exports are Northern Africa and the Middle East.

In December 2012, the EU announced that the Russian veterinary service has been granted the authority to approve exports to the EU. Despite enthusiasm within the Russian industry, in February 2013, the Russian veterinary service's offices for the city of Moscow and the Moscow and Tula regions, together with representatives of the State Veterinary Service of the Russian Federation, surveyed 45 companies engaged in the processing and storage of products of animal origin, for their compliance with the requirements of the Customs Union (23 companies) and third countries (22 companies). According to the survey, it was found that 20 companies (45%) did not meet animal health rules and regulations, and that more work needed to be done to better position the industry for international competitiveness.

Other Relevant Reports

Eurasian Economic Commission Announces 2013 Meat and Poultry TRQs

Russia Distributes Additional 2012 Meat and Poultry TRQ Volumes

Production Tables

Table 4. Poultry Inventories, Jan-Dec 2011-2012, mln Head

	Jan-Dec 2011	Jan-Dec 2012	%Δ 12/11
All types of farms	473,4	494,5	104,5
Significant poultry producers	371,1	394,1	106,2
Private household farms	96,6	94,4	97,7
Private farms	5,6	6,1	107,9

Source: Rosstat

Trade Tables

Table 5. Russia Imports*, Commodity: Broiler Meat, Annual Series: 2007 - 2012

Commodity	**Unit**	**Description**	**Quantity**					
			2007	**2008**	**2009**	**2010**	**2011**	**2012**
PSD BROILER MEAT +	T	_PSD BROILER MEAT	1,222,103	1,158,937	913,216	618,445	389,989	456,610
020714	T	Chicken Cuts And Edible Offal (Inc Livers), Frozen	1,126,102	1,073,984	861,592	586,630	370,277	433,199
160232	T	Prepared Or Preserved Chicken Meat Or Offal, Nesoi	12,972	13,317	10,328	10,068	17,004	12,620
020712	T	Meat & Offal Of Chickens,Not Cut In Pieces,Frozen	83,021	71,622	41,282	21,729	2,690	10,751
020713	T	Chicken Cuts & Edible Offal (Incl Liver) Frsh/Chld	0	0	0	0	0	22
020711	T	Meat & Offal Of Chickens,Not Cut Fresh Or Chilled	6	14	14	18	17	18

Source of Data: Global Trade Atlas

*Belarus is not included

Table 6. Russia Imports, Commodity: Broiler Meat, Annual Series: 2007 - 2012

Partner Country	Unit	Quantity					
		2007	2008	2009	2010	2011	2012
World	T	1,222,103	1,158,937	913,216	618,445	389,989	456,610
United States	T	878,230	841,552	694,357	294,920	239,306	262,882
Belarus*	T	N/D	5,934	20,828	37,887	73,434	102,799
EU-27	T	138,937	142,676	144,307	173,953	72,534	77,338
Brazil	T	195,122	161,780	66,147	137,468	64,446	61,847
France	T	36,712	38,120	40,482	24,984	23,430	32,107
Ukraine	T	0	0	0	75	5,171	30,440
Argentina	T	3,468	5,342	4,727	6,821	4,745	14,026
Netherlands	T	7,775	8,959	7,474	14,708	1,342	10,013
Thailand	T	0	0	0	0	695	8,511
Belgium	T	13,253	10,157	1,444	6,310	3,795	7,601
Germany	T	69,887	71,715	82,832	90,586	28,585	5,514
Finland	T	4,308	3,539	720	3,726	3,251	5,092
Poland	T	45	2,351	2,297	7,570	2,806	4,555

Source of Data: Global Trade Atlas
*Belarus exports to Russia data

Table 7. Russia Exports, 020714, Chicken Cuts And Edible Offal (Including Livers), Frozen Annual Series: 2007 - 2012

Partner Country	**Unit**	**Quantity**					
		2007	**2008**	**2009**	**2010**	**2011**	**2012**
World	T	224	1,020	4,898	17,202	18,323	14,713
EU-27	T	0	0	45	40	0	0
Hong Kong	T	0	0	1,236	8,420	11,128	10,741
Vietnam	T	44	287	2,584	6,676	6,424	2,650
Thailand	T	0	0	0	0	0	325
Kyrgyzstan	T	0	0	0	0	0	244
Liberia	T	0	0	0	0	0	54

Source of Data: Global Trade Atlas